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### THESIS

**IRANIAN FOREIGN POLICY MAKING:  
DOMESTIC FACTIONALISM AND ITS IMPLICATIONS  
FOR U.S. POLICY**

by

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September 1998

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AND ITS IMPLICATIONS FOR U.S. POLICY**

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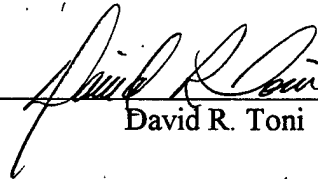
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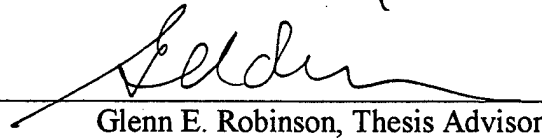
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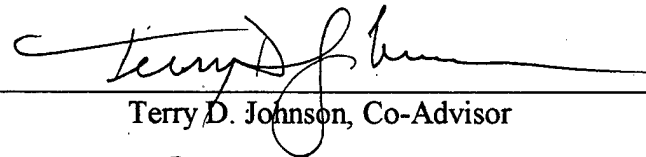
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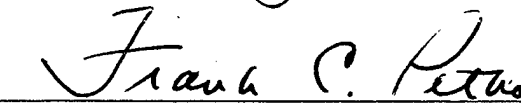
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## ABSTRACT

While Iranian foreign policy making since the 1979 revolution has been erratic and even hostile to the interests of the United States, it has been anything but irrational and unintelligible. This thesis argues that Iranian foreign policy making is not enigmatic but rather can be understood in a systematic and rational manner. The key to understanding Iranian foreign policy making is the notion of factional politics in an unconsolidated polity. Put briefly, Iran has lacked a consistent and decisive center of power, leaving foreign policy-making in the hands of various elite factions. The seemingly erratic nature of Iran's actions is explained by noting which faction is behind various policies. Seemingly self-defeating foreign policies have often been designed for *domestic* political advantage. Foreign policy, like domestic policy, is a tool for advantage in Iran's factional power struggle—conclusions directly at odds with Neo-Realist theory.

President Khatami's pursuit of liberalization and rapprochement with the US has highlighted the factional component of Iranian policy making. Understanding Iranian policy in this manner leads to a logical conclusion for US policy makers: Khatami's overtures are genuine and strategic, not only because they will help Iran but also because they will help Khatami remain in power.



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## I. INTRODUCTION

Since the 1979 Islamic Revolution, Iran has conducted a foreign policy best known in the West for its frequent hostility and contradiction. Numerous examples of support for terrorist acts abroad, attempts to destabilize regional governments and to spread its example of revolutionary rebirth have epitomized Iranian diplomacy. Iran's reward for non-traditional diplomacy has been frequent and long-term ostracization from former allies, neighbors, business partners, and lenders. An additional result of this has often included disastrous domestic consequences. Nevertheless, in spite of the human losses from war, severe economic impact from lost trade and investment, and regional ostracism, Iran has continued to back up rhetoric with actions.

As a result of such Iranian activity, many Americans, including policy makers, have considered Iran an enigma. After all, how could anyone hope to understand the motivation of a government that is frequently seen to engage in foreign policies directly contradicting the rules of the international system and arguably even their own national interests? This inability to understand Iranian policies appears to have encouraged a perception that it is simply impossible to account for foreign policy actions of Islamic fundamentalist states such as Iran.

Such intellectual surrender becomes more acute when policy makers fall into the "Orientalist trap." Images of back turbaned ayatollahs, crowds chanting "*marg bar Amreka*" (death to America), and tales of medieval Islamic punishments encourage a belief that Westerners are incapable of understanding the "unique" Islamic fundamentalist imperatives presumably central to all Iranian motivations.

Of the big four rogues—Iraq, Libya, and North Korea—Iraq has been viewed with most suspicion. Iraq and Libya are mere dictatorships, North Korea a petty dynasty and communist holdout. These countries the United States can understand. But Iran is more troublesome—it is an Islamic fundamentalist state, warlike and irrational.<sup>1</sup>

My thesis challenges this prevailing “Orientalist” mindset, common among many US policy makers, that the highly publicized “radical” foreign policies of the Islamic Republic of Iran are primarily attributable to the nature of some unitary Islamic fundamentalist ideology. This thesis will argue Iran’s “radical” foreign policy is not as some would believe, a phenomenon directly attributable to the radical nature of Iran’s fundamentalist regime. The key to understanding Iranian foreign policy making is the notion of factional politics in an unconsolidated polity. Put briefly, Iran has lacked a consistent and decisive center of power, leaving foreign policy making in the hands of various elite factions. The seemingly erratic nature of Iran’s foreign policy is explained by noting which faction is behind various policies.

The 1997 election of President Khatami has taken this political game to a new level. Khatami’s pursuit of liberalization and rapprochement with the US has highlighted the factional component of policy making in Iran. These policies, also, come at a critical juncture in Iranian history. Understanding Iranian foreign policy in this manner leads to a logical conclusion for US policy makers: Khatami’s overtures are genuine and strategic, not only because they will help Iran move forward but also because they will help Khatami remain in power.

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<sup>1</sup> Tarek Masouod, “Misreading Iran,” *Current History*, Vol. 97, January 1998, p. 16.

This thesis will analyze Iran's domestic factionalized political environment since the 1979 Islamic Revolution, as well as the effect factionalism has had on Iranian foreign policy. To accomplish this analysis, several analytical tools of comparative foreign policy theory are applied to explain the origins and reasons for Iran's often-inconsistent foreign policies. These analytical tools are used to help narrow the range of variables which need to be considered in examining the motives behind various foreign policy actions.

However, the value of studying Iranian foreign policy using these analytical tools is not just worthwhile because it clarifies events of the past. Their true value is in their potential for future application. Specifically, if the predominant goals of the competing factions within Iran can be properly identified, US policy makers may be able to more accurately forecast future actions and plan for appropriate responses.



## II. REGIME FACTIONAISM AND FOREIGN POLICY FORMULATION

The intricacies of international relations and foreign policy have been the focus of a wide range of research and scholarship. Many case studies have focused on understanding the motivation of individual states at various significant periods in their history. Within this type of research, two main historical schools of thought exist. The first school, supported by state-level theorists, contends that domestic politics are most responsible for influencing a state's foreign policy formulation. In contrast, the second school, called neo-realists, discounts domestic factors as decisive to foreign policy outcomes. They argue that it is the structure of the international system which has the most influence on a state's foreign policy formulation and execution. Because I intend to prove the importance of domestic factionalism on Iranian foreign policy, I will focus on the principles associated with state-level theory.<sup>2</sup>

Using America as an example, one can observe the influence domestic politics and opposition groups have had on foreign policy formulation. Of course, this is not surprising given the fact that open political systems, such as ours, are expected to be accountable and accommodate challenges from domestic opposition and special interest groups. After all, open political systems have regular competitive electoral contests, legalized political parties, a high degree of toleration for autonomous political groups,

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<sup>2</sup> The theory that Iranian foreign policy is influenced heavily by domestic factional politics is directly at odds with the expectations of Neo-Realists.

and an acceptance of constitutional restraints on government power.<sup>3</sup> However, in contrast, closed political systems are thought to be immune from the restrictions of accountability and political opposition. When we think of the model of a classic authoritarian state we would expect to see an official ideology, a single mass party, a system of terroristic policy control, near complete party control of all means of effective mass communication, and central control of the entire economy.<sup>4</sup> Therefore, within such a state as Iran, the presence of an effective challenger would appear to be quite unlikely. However, it is not because significant opposition can and does occur in closed political systems.

Case studies have shown the foreign policies of several authoritarian states, such as the Soviet Union and China, have indeed been affected by domestic forces.<sup>5</sup> While these case studies do not identify opposition in the form of political parties or interest groups, opposition is frequently found within the ruling regime. These inter-regime divisions are often institutionalized when a collective rules authoritarian regimes. In these cases a leader may have to share power with a collection of equally powerful, or perhaps more powerful, individuals or groups. Therefore, instead of being the single powerful executive, the authoritarian leader may simply be "a first among equals."

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<sup>3</sup> R. Barry Farrell, "Foreign Policies of Open and Closed Political Systems," in R.B. Farrell (ed.), *Approaches to Comparative International Politics* (Evanston, IL: Northwestern University Press, 1966), p. 168.

<sup>4</sup> C. Friedrich and Z. Brzezinski, *Totalitarian Dictatorship and Autocracy* (New York: Praeger, 1956) who are quoted by Joe D. Hagan, "Regimes, Political Oppositions, and the Comparative Analysis of Foreign Policy," in *New Directions in the Study of Foreign Policy*, C. Hermann, C. Kegley, Jr., and J. Rosenau (ed.) (Boston: Allen & Unwin, 1987), p. 341.

<sup>5</sup> See studies by Alexander Dallin, "The Domestic Sources of Soviet Foreign Policy," in S. Bialer (ed.), *The Domestic Context of Soviet Foreign Policy* (Boulder, CO: Westview Press, 1981) and T. Gottlieb, *Chinese Foreign Policy Factionalism After the Cultural Revolution*, R-1901-NA (Santa Monica, CA: RAND Corp., 1977).

Additionally, there is no indication that authoritarian regimes founded on ideological principles are more immune from these sorts of internal divisions. While ideology may be useful for articulating a strategic vision, it is usually elastic and can be stretched to accommodate widely differing perspectives.

#### **A. FACTORS CONTRIBUTING TO INTER-REGIME OPPOSITION**

Given the ability for opposition to affect the foreign policy of authoritarian regimes, it is important to understand the factors which are most responsible. Two of the most important factors are the levels of vulnerability and factionalism present within the regime.

##### **1. Fragmentation and Vulnerability**

Fragmentation refers to the degree to which a single leader is unable to effectively dominate the state's political environment.<sup>6</sup> The leader's ability to dominate is degraded if his regime suffers from internal political divisions, whether they are competing political groups, particular individuals, or associated institutions and bureaucracies.

Regime vulnerability differs from fragmentation in that it focuses on the strength of the regime relative to the broader political environment of the state.<sup>7</sup> For example, what is the likelihood that the leader will be removed from office?

The degree to which fragmentation and vulnerability are present is important because they indicate how much flexibility a leader has to make controversial foreign

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<sup>6</sup> Joe D. Hagan, "Regimes, Political Oppositions, and the Comparative Analysis of Foreign Policy," in *New Directions in the Study of Foreign Policy*, C. Hermann et al (ed.) (Boston: Allen & Unwin, 1987), p. 344.

<sup>7</sup> Ibid., p. 346.



policy decisions. A leader within a fragmented and vulnerable regime will avoid creating controversies which could provoke public debate.<sup>8</sup> Debate could prove costly if it alienates key political support groups or calls into questions his suitability for leadership. Leaders in vulnerable positions therefore build alliances by carefully negotiating, persuading, and accommodating rival political actors in order to successfully implement policy or simply remain in office. Such political gymnastics can be extremely difficult and can result in ambiguous, contradictory, and inconsistent policies and declarations as leaders engage in "horse trading" to meet their broader policy objectives. These challenges become even more significant when regimes lack central control over government bureaucracies. In these cases various government agencies— seeing a role for themselves in the diplomatic relations of their country— may engage in politically motivated contradictory policy announcements or actions. Hagan describes the diplomatic personality of these regimes:

Fragmented and vulnerable regimes are likely to engage in passive or quiet behaviors, that is, diplomacy marked by few initiatives, low intensity and occasional hostility. In part this passivity stems from the "watering down" process inherent in bargaining and compromise when a consensus is developed. Perhaps more importantly though, quiet diplomacy stems from the imperative that highly constrained governments must avoid controversies that could disrupt tenuous public support and interfactional/intergroup balances.<sup>9</sup>

## **2. Political Foreign Policy Actors**

Within factional regimes, Hagan has identified four political actors which impact foreign policy: (1) divisions within the leadership stemming from personality and

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<sup>8</sup> Ibid., p. 349.

factional and bureaucratic differences; (2) legislative actors and other governmental actors sharing power with the executive; (3) politically active segments of the society in the form of bureaucratic and interest groups; and (4) the less structured activity of the mass public in the form of public opinion and sometimes widespread civil unrest.<sup>10</sup> As I will illustrate in later chapters, all of these actors are present and have substantial roles in influencing Iran's foreign policy.

*a. Individual Actors*

The first political actors identified by Hagan can be described as *individual actors*. These actors are powerful individuals within a regime that, either through the power of their individual office or through force of their own personality, are able to unilaterally enact policy or exert significant influence within government and society. Within Iran several individuals and positions have traditionally possessed such power. First among them is the *Faqih*, Iran's Supreme Spiritual Leader, best represented by the former office holder and leader of Iran's revolution, Ayatollah Khomeini. Although no one in Iran today possesses the virtually unchallengable political power Khomeini eventually achieved; several very influential individuals do exist. These powerful actors include the current *Faqih*, Ayatollah Khamenei; Iran's hugely popular President Khatami; the former president and head of the Expediency Council, Rafsanjani; and the current speaker of the *Majlis* (parliament) Nateq-Nuri.

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<sup>9</sup> Ibid., p. 350.

**b.      *Legislative and Other Government Actors***

The second level of political actors is *legislative and other government actors* who share power with the executive. Iran's bureaucratic government contains a myriad of departments which compose the overall structure of government power; however, several departments stand out as the main power brokers within the Islamic Republic. Among them are the Expediency Council, *Majlis*, Justice Ministry, Ministry of Intelligence and Security (MOIS), and the Iranian Revolutionary Guards Corps (IRGC). All of these organization, to varying degrees, have played direct roles in the execution and formulation of foreign policy.

**c.      *Politically Active Segments of Society***

The third level of political actors can be described as *politically active segments of society*. Within Iranian society these actors are represented by *bazaaris* (Iran's traditional merchant and business class), the *Bonyade Mostaza'faan* (Foundations of the Oppressed), technocrats, and the growing number of pragmatic and politically active clerics. While groups such as these are not typically expected to have the power to directly influence foreign policy, the history of the Islamic Republic proves otherwise.

**d.      *Less Structured Mass Public***

The last level of political actors in Iran are the *less structured mass public*. Although the Islamic Republic has been a state which has lacked political pluralism and party organizations, the power and influence of Iran's increasingly disenchanted population can not be underestimated. This fact became all the more obvious after the

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<sup>10</sup> Ibid., p. 343.

1997 presidential elections in which the candidate, widely regarded as a long shot, received a mandate of 69 percent of the popular vote. This event, and other recent developments in Iran, point to the increasing influence ordinary Iranian citizens will continue to have on the organization and activities of their government, including foreign policy formulation.

Within Iran's unconsolidated polity, all of these political actors and their competing ideologies play key roles in influencing the country's foreign policy making. While many of the Islamic Republic's foreign policy actions may seem self-defeating one must consider the factional and highly competitive political environment in which they are developed as well as their intended impact on the internal balance of power. Failing to recognize the impact of these actors accounts for the often myopic analysis provided and generated by many US policy makers. Simply put, when studying the formulation of Iranian foreign policy, one cannot focus exclusively on the role of one factor, be it bureaucratic politics, interest groups, or powerful individuals. In Iranian politics and by extension foreign policy, all of these political actors are important and must be understood before the rationality of Iranian actions can be understood.



### III. EXPORTING REVOLUTION—ERA OF THE RADICAL IDEOLOGUES

Since its very beginning, revolutionary Iran has been composed of multiple autonomous groups committed to their own agendas and lacking any loyalty to a higher central authority when it conflicts with factional interests. While Khomeini was indeed the most powerful personality of Iran's 1979 Revolution, neither Khomeini nor any other individual or group since the birth of the Islamic Republic has ever been successful in fully consolidating power.

One of the most remarkable features of the "rule of the ayatollahs" has been the degree to which this relatively small group of men, in spite of their many similarities in social origin and intellectual background, have disagreed on some of the most fundamental issues concerning the nature of an Islamic society and government, and have formed alliances and counter-alliances based on ideological affinities or political expediencies... [D]ifferent "Islamic tendencies" coalesced into two major camps, the "conservatives" and the "radicals"... Iranian elite politics during the 1980s was a story of rivalries, shifting alliances and conflicts between these two factions.<sup>11</sup>

Although this factional discord is evident in most spheres of government activity, it has often had its greatest impact on the government's practice of foreign policy. As pragmatic elements in Iran have attempted to take a more moderate, less confrontational, approach in inter-state relations, they have been hindered by the influence and intransigence of hard-line and conservative opposition.

Iran's foreign policy has been in complete disarray for a long period of time mainly due to the existence of extreme factionalism within the government and the regime. On the one hand, you have relative pragmatists – and I stress relative, people like Rafsanjani – and you have ideologues on the other hand who want to export the revolution and

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<sup>11</sup> Ali Banuazizi, "Iran's Revolutionary Impasse: Political Factionalism and Societal Resistance," *Middle East Report* 24:6, November-December 1994, p. 2-3 (LEXIS-NEXIS).

continue to support the ideals of the radical Islamic approach in foreign policy.<sup>12</sup>

## **A. FOUNDATION OF KHOMEINI'S RADICAL VANGUARD**

### **1. The Radical Left**

The cause of Iran's poor cohesion was largely due to the factional fighting between Iran's ruling clerics, representing the country's political left and right, and university educated non-clerical Islamist supporters of the revolution. The left was represented by the radical hard-line clerical faction who had, since the early days of the revolution, been developing their vision of "Islamic socialism" lead by Khomeini's vision of *velayat-e-faqih* (guardianship of the jurist). Khomeini's theory of *velayat-e-faqih*, while having no foundation in Islam, had great appeal for young radical *mullahs* and low to mid-level *hojjatolislams* who had been devoted disciples of Khomeini since before the revolution. These revolutionaries were not cut from the same cloth as their more senior and established cleric brothers and therefore had no desire to spend their days studying obscure *Shi'i* religious doctrine in Qom. For them, Khomeini's decision to use his legion of followers to create and staff his Islamic republic was much more exciting. These young revolutionaries came from poorer backgrounds and therefore had a strong commitment to the *Mostaza'faan* (the revolution's term for the downtrodden oppressed masses, Iran's lower economic classes of the urban slums).

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<sup>12</sup> "Interview with Graham Fuller," *Middle East Policy*, Vol. II, 1993, No. 3, p. 130.

**a.     *The Bonyads***

The radicals demanded the state provide the basic needs for the population – housing, food, health care, education, and land reform. To realize their vision they succeeded in nationalizing a wide range of private enterprises. These appropriated enterprises, known as *bonyads*, represent Iran's largest holding companies. The largest, the *Bonyade Mostaza'faan* (Foundation of the Oppressed) is made up of some 1,200 firms. It was established with money confiscated from the Shah's family and from prominent industrialists who fled the revolution.

The *bonyads* essentially have the power of a state within a state and have given the radicals a tremendous amount of autonomy. Their financial interests range from mining, housing construction, transportation, hotels, to tourism. The government has little control over the foundation and it is unable to levy taxes or monitor its foreign currency disbursements. The *bonyads* were designed to support the "victims of the Shah" and the wounded of the eight-year war with Iraq. The remainder of its profits are to be used for education in poorer areas of the country. However, it is difficult for outsiders to trace the legitimacy of their financial dealings which may include support for transnational terrorist activities.

**2.     **The Conservative Clerics****

At the opposite end of the religious spectrum are Iran's much larger right wing collection of influential, and traditionally better-off conservative clerics. This group stood for the sanctity of private property and wanted a minimum of government interference in the economy. Their vision was one of Islamic capitalism. Not



surprisingly the conservative clerics were supported by landlords who feared the radicals' commitment to land reform. They were also supported by wealthy *bazaaris* who owed their fortunes and continued livelihoods to trading, commerce, and speculation.<sup>13</sup> This alliance, between the *bazaaris* and the clergy, is well established in Iran.

The *ulama* had strong ties with the bazaar classes (called in Persian *bazaaris*), including both the bazaar elite of merchants engaged in long-distance and international trade and the larger group of bazaar artisan-shopkeepers, organized into guilds. *Ulama* and *bazaaris* often belonged to the same families; much *ulama* income came from levies paid mainly by *bazaaris*; the guilds often celebrated religious or partly religious ceremonies for which the services of *ulama* were needed; and piety and religious observances were among the signs of bazaar standing or leadership. (Even today respectable bazaar shopkeepers and moneylenders are often addressed as "*Hajji*," whether or not the speaker knows if the addressee has made a pilgrimage justifying this form of address.) Entry into the *ulama* through study was an avenue of upward social mobility and entailed more respect than entry in Qajar service. Mosques and shrines were a major area of *bast* (refuge) for individuals and groups that feared governmental arrest or harassment.<sup>14</sup>

While both the radicals and conservatives vied for Ayatollah Khomeini's endorsement, he did not typically take sides in the struggles. It was more common for him to act as an arbitrator, bouncing back and forth between each side ensuring neither got the upper hand of the other. Nevertheless, it was obvious that he was sympathetic to the socio-economic agenda of the radicals and its goal of improving the lives of the *mostaza'faan*. This is illustrated by a quote from the *Tehran Times* in 1982, "We must

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<sup>13</sup> *Bazaaris* are Iran's traditional business and trader class, ranging from small family owned shops in the bazaar to the much larger bazaar money lender and even bigger businesses.

<sup>14</sup> Nikki R. Keddie, *Roots of Revolution: An Interpretive History of Modern Iran* (New Haven: Yale University Press, 1981), p. 32-33.

make all efforts to serve the *mostaza'faan* who has been oppressed throughout history, and the government should always give priority to him.”<sup>15</sup> After all, although the revolution was lead by the middle class, its foundation was built on the support of the *mostaza'faan*. In addition, the revolution also had a commitment to provide for the financial and social welfare for families of the legions of *mostaza'faan* who became *shaheed* (martyrs) in the war against Iraq.

## **B. THE BATTLE FOR DOMINANCE**

The seizure of the American Embassy in 1979 is arguably the best, though little appreciated, example of inter-group conflict in Iran. In November 1979, when militant students seized the American embassy in Tehran and took American citizens hostage, Iran's political authority was anything but consolidated. While there were government groups involved in decision making, they were not united and therefore, unable to carry out their desires. Relative “moderates” in the Prime Minister's office and Foreign Ministry (such as Bazargan, Bani Sadr, Ghotbzadeh, and Yazdi) opposed the embassy seizure. However, the more “radical” clergy, led by Ayatollah Behesti, and the militant students holding the embassy favored a less diplomatic approach. Therefore, in spite of the numerous efforts on the part of “moderates” to effect an end to the crisis, radical opposition in the Revolutionary Council and among the student militants was successful in prolonging the crisis.<sup>16</sup>

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<sup>15</sup> *Tehran Times*, 19 September 1982, p. 1, quoted by Cheryl Benard & Zalmay Khalilzad in *The Government of God: Iran's Islamic Republic* (New York: Columbia University Press, 1984), p. 66.

<sup>16</sup> Margret G. Hermann, “How Decision Units Shape Foreign Policy Behavior,” in *New Directions in the Study of Foreign Policy*, C. Hermann (ed.) (Boston: Allen & Unwin, 1987), p. 323.

The hard-line followers of Khomeini were further emboldened by the revolutionary religious rhetoric of their spiritual and temporal guide. In a speech commemorating the first anniversary of the Shah's overthrow, Khomeini stated,

We will export our revolution to the four corners of the world because our revolution is Islamic, and the struggle will continue until the cry of *La ilaha illa 'llah* (there is no God but Allah) and *wa Muhammad rasul-ullah* (and Muhammad is the messenger of God) prevails throughout the world.<sup>17</sup>

Khomeini's messianic vision served to increase the level of paranoia among Iran's neighbors in the Persian Gulf, but more importantly, it encouraged a fanatical devotion to the regime's leadership which was crucial during the revolution's very fragile consolidation phase.

### C. RADICALS IN THE FOREIGN MINISTRY

These early examples of radicalism's triumph over moderation strengthened the more radical factions in Iran. A day after the seizure of the American Embassy "moderate" Prime Minister Bazargan resigned, citing the widening ideological gap between himself and Khomeini.<sup>18</sup> Later, in 1981, Iran's radical modernist president, Bani Sadr, was dismissed, further strengthening the hand of hard-liners.<sup>19</sup> However, more importantly, the seizure of the US Embassy established a precedence for future foreign

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<sup>17</sup> Speech by Ayatollah Khomeini. Quoted by Benard and Khalizad, p. 148.

<sup>18</sup> David Menashri, *Iran—A Decade of War and Revolution* (New York: Homes & Meier Publishers, Inc., 1990), p. 112.

<sup>19</sup> Bani Sadr had been a threat to radical cleric's domination of the government because of his desire for increased executive power (in the style of Western presidents).

policy “free-lancing” by individual groups bent on spreading Iran’s revolutionary brand of Islam through less than diplomatic means.

During the period from 1979 – 1984, Iran’s foreign policy establishment lost hundreds of experienced diplomats.<sup>20</sup> Seasoned diplomats were replaced by semi-literate young religious ideologues eager to do the “*Imam’s*” bidding. Some of these new members of the foreign service corps were none other than those who had participated in the previous seizure of the American Embassy.<sup>21</sup> Consequently, the way in which they were to practice foreign diplomacy should have come as no surprise.

#### **D. POST-REVOLUTION FOREIGN POLICY — HOSTAGE TO IDEOLOGY**

From the very beginning of its establishment, the Islamic Republic’s hard-line foreign ministry espoused Islamic internationalism. This rather amorphous concept focused on the “oneness” of the Muslim world and challenged the artificial divisions created by current and past colonialists and “tyrannical self-seeking rulers.”<sup>22</sup> Iran’s revolutionaries sought to correct the errors of the past by spreading their liberating Islamic ideology throughout the Muslim world and beyond. Because the revolution came to Iran so quickly, and rather easily, the revolutionary elite became convinced that its attractiveness could be exported to the third world in general and the Muslim world in particular.

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<sup>20</sup> John W. Limbert, “Islamic Republic of Iran,” in *The Government and Politics of the Middle East and North Africa*, David E. Long and Bernard Reich (ed.) (Boulder, CO: Westview Press, 1995), p. 60.

<sup>21</sup> Ibid.

<sup>22</sup> *The Guardian*, November 1978. Quoted by Benard and Khalilzad, p. 147.

Since Iran had institutionalized an Islamic state, it had the experience and the authority to set a precedent to lead the new movements, and to formulate the ideas needed for structural and incremental change... One of the prevailing precepts of Iranian foreign policy has been to portray Iran as the nucleus, or center, of the Islamic movements, national resistance movements, and the third world assertiveness.<sup>23</sup>

However, within the Islamic Republic considerable ambiguity remained regarding how its liberating brand of Islam would be spread and who would take the lead in its export. Hard-line ideologues favored spreading the virtues of Islamic liberation with the "point of a sword" and through the subversion of other governments. These die-hards were firm believers in the inevitability of conflict between their pure Islamic state and the rest of the world. However, more pragmatic supporters of the revolution favored a less confrontational approach. These elements wanted Iran to serve as a model for the world and supported coexistence with non-Islamic states.

The Iran-Iraq war was perhaps the first example of Iran's new foreign policy ideology in action. The war could be described as a confrontation between Khomeini's pan-Islamism and Saddam Hussein's pan-Arabism. Although domestic power politics as well as regional political hegemony were involved, the ideologies of each side were used as important legitimizers to wage war.<sup>24</sup> Additionally, when Iran's Gulf neighbors chose sides, opting to support Iraq, Iran's attempts to destabilizing regional regimes were legitimized.

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<sup>23</sup> Mahmood Sariohghalam, "Conceptual Sources of Post-Revolutionary Iranian Behavior Toward the Arab World," *Iran and the Arab World* (New York: Saint Martin's Press, 1993), p. 21.

<sup>24</sup> *Ibid.*, p. 30.

## **1. Exporting the Revolution**

As Iran's foreign diplomacy increasingly rejected traditional tenet of diplomatic behavior, it quickly became apparent to many Gulf sheikdoms that their fragile states were to experience the brunt of Iran's revolutionary fervor.

### ***a. Iran's Emissaries***

Iran's hard-line dominated foreign ministry began by dispatching regional emissaries. The regime's emissaries and propaganda machinery called on people of the region to rebel against their governments. However, Iran's activities involved more than just propaganda. Iran's Revolutionary Guard Corps (IRGC) reportedly provided guerilla training for groups from several Muslim countries.

Among the Gulf states, many with large Shi'i communities such as Bahrain and Kuwait, felt particularly vulnerable to Iranian manipulations. The former Iranian territory of Bahrain became a frequent target of Iranian interference.<sup>25</sup> However, the small Gulf emirates were not the only states targeted by Iran. In the early 1980s, Iran's revolutionaries also encouraged Islamic revolts in Egypt and Saudi Arabia. All the Gulf monarchies were denounced by Khomeini as atheist and illegitimate governments, dependent on the US.

### ***b. Hajj Propaganda Campaigns***

In addition to attempting to destabilize governments domestically, Iran also used Islamic and regional gatherings to mobilize support for their ideology. In 1981 and 1982 Iran was accused of inciting clashes between Iranian *Hajj* pilgrims and Saudi

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<sup>25</sup> In 1981, Bahrain accused Iran of sponsoring a coup attempt by a multinational group.

security forces. Iran's revolutionary leaders regarded the Hajj particularly as a prime venue to promote its propaganda goals. In preparation for the 1982 pilgrimage season, Khomeini appointed Muhammad Musavi Kho'iniha, the former religious guide for the students who had seized the US Embassy in 1979, to supervise Iran's 95,000 pilgrims and carry-out Khomeini's propaganda campaign. Iran's *Hajj* preparations were well coordinated and included smuggling propaganda material into Saudi Arabia, as well as the publishing and distributing of material during the *Hajj*. When Saudi authorities responded to Iranian provocations, Iran challenged the Kingdom's position as guardian for the two holy places. Kho'iniha stated that since Iran was "the most powerful Muslim state" it should administer the *Hajj*.<sup>26</sup>

Iran's biggest challenge to the Kingdom occurred during the 1987 *Hajj* pilgrimage when more than 400 people were killed in clashes between Iranian *Shi'i* pilgrims and Saudi security forces. Khomeini cursed Saudi Arabian King Fahd, blaming him for the bloodshed and declaring him unfit to be the guardian of Islam's two holiest shrines. Iran then boycotted the *Hajj* for three years.<sup>27</sup>

## **2. Costs of Ideological Export**

The continued ideological proselytization and subversive activities of Iran's hardliners exacted a price on Iran. When Iraq invaded Iran, and throughout the eight years of war, there was little sympathy for the Islamic Republic within the region or in the

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<sup>26</sup> *Ettela'at*, 3 August 1983. Quoted by Menashri, p. 293 (LEXIS-NEXIS).

<sup>27</sup> "Iran Paper Cautions Against Soft Line of Saudi," *Reuters*, 11 June 1992 (LEXIS-NEXIS).

international community.<sup>28</sup> Countries which may have come to Iran's aid, chose instead to stand by, content to see the Gulf's two bullies bloody themselves. As a consequence, one might expect the war to have prompted Iran to seek better relations with its neighbors as a means of weakening support for Iraq. However, just the opposite was true. The war actually further radicalized Iranian foreign policy. Basically, until the end of the war, the Iranian government made no attempt to change its foreign policy and the balance among the domestic policy makers remained unchanged and perhaps unchangeable.

#### **E. THE RISE OF THE PRAGMATISTS**

In the late 1980s, as the contests and debates between radical and conservative factions continued to paralyze Iran, a new group began to emerge from within the clerical establishment and society. This new group, lead by *Majlis* speaker (and future president) Ali Akbar Hashemi Rafsanjani, attempted to fill the vacuum left by Ayatollah Khomeini's retreat as the center of all decision making. Characterized by its pragmatism, this group contained an alliance of technocrats and conservative and pragmatic clerics, and established a middle ground between the two prevailing religious factions. These pragmatists displayed less self-interest and were more focused on the best interests of the republic. Its members had become increasingly disenchanted with Iran's self-destructive socio-economic course, the war with Iraq, and the country's paranoid and contradictory foreign policy. However, this new pragmatic element was hamstrung by the continuing

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<sup>28</sup> Mansour Farhang, "The Iran-Israel Connection," *Arab Studies Quarterly*, Winter 1989, Vol. 11, No. 1, p. 88.



bloody war between Iran and Iraq and the ability it gave the radicals to control the economy and to resist challenge from internal opposition.

The pragmatists challenged the hard-liners commitment to the war. The radical clerics believed the war would continue until a final victory for Iran was achieved and that only this outcome would bring a "new Islamic era" to the Muslim world. The pragmatists on the other hand, having resigned themselves by early 1987 that a military defeat of Iraq was unlikely, seized the opportunity in July 1988 to encourage Khomeini to finally agree to a cease-fire with Iraq.

With the war over the radicals were no longer able to exploit the war with Iraq to justify their repressive social measures and austere economic practices. In addition, because Khomeini was no longer functioning as the center for all political decision making, the radicals had lost a considerable measure of their political influence. Recognizing Khomeini was no longer protecting the balance of power between the ideological factions, the pragmatic clerics went to work.<sup>29</sup>

Rafsanjani and Khamenei spent the year between the acceptance of the July 1988 cease-fire with Iraq and Ayatollah Khomeini's death in June 1989 implementing a multi-pronged strategy to divest the radicals of their strangle-hold on power by attacking them politically, deriding their ideological message, and eroding their institutional power base. The strategy accelerated once Rafsanjani was elected President in 1989 and Khamenei became Supreme Leader. The hard-liners were out-manuevered in the political process by the de facto alliance that emerged in 1989 between Rafsanjani and the technocrats, on the one hand, and the conservatives, on the other.<sup>30</sup>

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<sup>29</sup> Ahmad Salamatian, "La Revolution Iranienne Broye par ses Contradictions" *Le Monde Diplomatique*, 20 June 1993. Quoted by Ahmed Hashim in "The Crisis of the Iranian State," *Adelphi*, Paper 296 (London: Oxford University Press, 1995), p. 11.

<sup>30</sup> Ahmed Hashim, "The Crisis of the Iranian State," *Adelphi*, Paper 296 (London: Oxford University Press, 1995), p. 11.

## F. SATANIC VERSES & FOREIGN POLICY CONTRADICTIONS

Unfortunately a period that might have been regarded as a much more progressive stage in the evolution of Iranian foreign policy was derailed because of Iran's lack of political and foreign policy cohesion. In February 1989, on the heels of violent demonstrations in India and Pakistan, Khomeini issued a *fatwa* calling for the death of Salman Rushdie because of his book, *The Satanic Verses*.<sup>31</sup> Although Khomeini was no longer physically sitting at Tehran's political center, he was capable of hijacking the Islamic Republic's foreign policy process. Khomeini's death *fatwa* dealt the already struggling regime a serious setback in their efforts to improve relations with Western Europe.

Khomeini's action begged the question: Given the fact that Khomeini had blessed Rafsanjani's rapprochement policy, why did he purposely torpedo the pragmatist's efforts? The answer is: He may not have intended to do so.

Khomeini's initial angry reaction to *The Satanic Verses* and his death decree for Rushdie may have been more of an emotional outburst than a pre-planned move against the pragmatists. A similar outburst had occurred a few weeks earlier. In that case Khomeini had asked for the severe punishment of five radio officials who were responsible for a disrespectful program regarding the daughter of the Prophet Mohammad. A woman interviewed on the program had suggested that her role model was a Japanese television personality and not the Prophet's daughter, Fatima. In his angry response, Khomeini called for the death of those responsible if it was intentional and heavy punishment if it was not. A few days later he forgave all of them.<sup>32</sup>

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<sup>31</sup> Maziar Behrooz, "Trends in the Foreign Policy of the Islamic Republic of Iran," in *Neither East Nor West*, Nikki R. Keddie and Mark J. Gasiorowski (ed.) (New York: Yale University Press, 1990), p 31-32.

<sup>32</sup> Ibid.

Nevertheless, his proclamation had the effect of distracting many from the reforming and progressive efforts of the pragmatics; and in essence it reinforced the mindset of a number of Western countries that the Iranian regime was radical to the bone. But more importantly, it highlighted the handicaps reformers faced when their attempts to moderate policy were opposed by strong competing factions or respected individuals.

Although Khomeini's actions undoubtedly came as an embarrassment to Rafsanjani and his allies, their plans for rapprochement remained largely intact. Therefore, when Khomeini died in July 1989, the pragmatists were still in a strong position and Rafsanjani lost no time in publicly re-engaging the West. Five days after Khomeini's death, he reached out to the West, stating that it was the Islamic Republic's desire to have normal relations with the West if Iran was able to retain its independence.<sup>33</sup>

However, if Rafsanjani's camp hoped that the European Union's (EU) stern response to the Rushdie affair had weakened factions beyond their alliance, they must have been disappointed. Although the EU's response was uncharacteristically firm, few Western states allowed their outrage to interfere with deals already made with the Islamic Republic. France's Industry Minister, Roger Fauroux, stated that attempts to improve trade relations should continue despite the Rushdie affair, and Britain's Foreign Secretary, Sir Geoffrey Howe, conceded that "...economic sanctions are not something that we normally reach for."<sup>34</sup> As a consequence, while Rafsanjani was dealt a setback, the hard-line clergy emerged relatively unscathed. Comments made by Dr. Yazdi, Iran's

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<sup>33</sup> *Iran Times*, 24 Feb 1989, in *Neither East Nor West*, p. 33.

first post-revolution Foreign Minister further reinforce this fact, "The multiplicity of centers of power is, if anything, increasing. This leads to paralysis, and that is where we are."<sup>35</sup>

## G. THE STRUGGLE OVER DIPLOMATIC STYLE

In spite of the continuing challenge from the hard-line clerical establishment, Iran's pragmatic politicians were hopeful that Khomeini's passing would allow them to exercise greater creative license and they continued to develop their reform projects.

Rafsanjani and his camp advocated consumerism, preferring the development of private enterprise over state-owned management of the economy. In addition, they emphasized the work ethic over ideology, calling on Iranians to rid themselves of the notion that 'poor' was beautiful—a direct challenge to the tenets of Ayatollah Khomeini's Islamic revolution.<sup>36</sup> Khomeini espoused the power of the dispossessed and urged Iranians to focus on the rewards and happiness awaiting the faithful in the afterlife.

*Hajatulislam* Rafsanjani stressed the need for higher productivity and pragmatism, arguing in the same speech that even the venerated Shiite Muslim Imam Ali, the Muslims' leader after the Prophet Mohammed, did not hesitate to work for Jews, a daring proposition in a state that is a sworn enemy of Israel. He has opposed occasional calls by radicals to resume the war with Iraq to liberate occupied Iranian lands.<sup>37</sup>

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<sup>34</sup> Douglas Stanglin and Richard Z. Chesnoff, "Diplomacy in the Dark," *U.S. News & World Report*, Vol. 106, p. 26 (LEXIS-NEXIS).

<sup>35</sup> Youssef M. Ibrahim, "Divided Iranians Seem Unable to Settle on Firm Policy Course," *The New York Times*, Section A, p. 1 (LEXIS-NEXIS).

<sup>36</sup> Ibid.

<sup>37</sup> Ibid.

## **1. Recognition of Past Mistakes**

Rafsanjani understood that Iran's interests were not best served by confrontation with its pro-Western Arab neighbors or the rest of the world. He acknowledged that one of Iran's mistakes was to have made so many enemies that it was friendless and isolated in the eight-year war with Iraq<sup>38</sup> According to Iran's own press agency, Rafsanjani said that if Iran had demonstrated greater tact in its dealings with France and Kuwait, they would not have supported Iraq in the Iran-Iraq War.<sup>39</sup> Reinforcing this belief, Rafsanjani declared that Iran was now in a position to "make good" its "previously crude diplomacy" to ensure that in future conflicts other countries would not side with Iran's enemy.<sup>40</sup> Iran's foreign minister echoed Rafsanjani's sentiments stating that since the war with Iraq was over, there were no obstacles to improving relations with neighboring Arab states. Referring specifically to relations with Saudi Arabia he said, Iran was willing "...to resume direct talks with them to take serious steps to overcome the conflict between the two countries which has only been exploited by our enemies."<sup>41</sup>

## **2. Hard-Line Resistance**

However, although Rafsanjani had won the 1989 presidential election by a wide margin he was still unable to consolidate power or effectively control the tone and direction of Iran's foreign policy. A treacherous domestic political front which included

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<sup>38</sup> Scheherazade Daneshkuh, "Iran Simmers With Discontent," *London Financial Times*, p. 4 (LEXIS-NEXIS).

<sup>39</sup> "Iranian Officials On Making Good 'Previously Crude' Foreign Policy," *The British Broadcasting Corporation*, 21 November 1988, BBC Summary of World Broadcasts, Section: The Middle East (LEXIS-NEXIS).

<sup>40</sup> *Ibid.*

<sup>41</sup> *Ibid.*

hard-line newspapers, the Iranian Revolutionary Guard's (*Sepah-e Pasdaran*), and radical students in over 50 Iranian universities continued to act as a check on his ability to chart a more moderate course. Among these challengers, the most significant one came from militant hard-line opponents in the *Majlis*. Although radical hard-liners were among the minority in the *Majlis* at the time (130 of 270 deputies), they exerted considerable influence over executive policy through their approval of cabinet appointments and were able to act as an effective break on the pragmatists' moderation and bridge building efforts.

When Rajai Khorassani, the pragmatic chairman of the *Majlis*' Foreign Relations Committee, suggested the time had come to improve ties with Saudi Arabia, he was rebuffed by *Majlis* deputies.<sup>42</sup> Likewise, attempts by Rafsanjani's administration to begin a dialog with Great Britain were blocked by radical opposition. Ayatollah Mohammad Yazdi, the Chief of the Justice Ministry and Rafsanjani ally, encountered hard-line intransigence when he attempted to improve Iran's ties with Britain by meeting with the relative of a Briton imprisoned in Iran for espionage. Hard-line ideologues in the *Majlis* blasted Yazdi's back-door diplomacy, effectively ending negotiations before they even got started.

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<sup>42</sup> Ibrahim, p. 1.

## **H. RAFSANJANI'S COALITION CRUMBLES**

### **1. Influence of Domestic Policy and Politics**

With the creation of the coalition between pragmatists and some conservative clerics and technocrats, a liberal economic strategy was adopted. The strategy, largely developed by Rafsanjani's technocratic dominated cabinet (the so called "PhDs with beards"), involved: privatization of inefficient state enterprises; removal of price controls; elimination of the system of subsidies; and unification of the anarchic system of multiple exchange rates.<sup>43</sup>

#### ***a. Conservative Defectors***

However, when economic reforms began to be felt, support from some coalition members started to wane. These members began to realize the effect reforms would have on the allocation of resources, their status, and the overall balance of power. Apart from disagreements regarding which restructuring techniques were best to carry out the needed reforms, technocrats wanted to stay the course. However, they did not have the political clout. Although many occupied posts as ministers and advisors, Rafsanjani, either on his own accord or due to hard-line pressure, positioned the technocrats well outside the inner circles of power.

Those conservatives that had joined the pragmatist's coalition now saw great appeal in preserving the status quo. But, in addition to looking out for their own personal interests, the conservative clerics were also under pressure from a number of groups including their primary support base, the country's bloated civil service work

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<sup>43</sup> Hashim, p. 12-13.

force, the *bazaaris*, and a large numbers of lower class Iranians who had switched allegiance from the radical faction.<sup>44</sup> Among the conservatives having a “change of heart” and migrating back to the right was Iran’s Supreme Leader, Ayatollah Khamenei.

Although Rafsanjani and Khamenei essentially began the reform program together after the 1989 elections, as opposition to reform continued to grow, Khamenei began to further complicate matters for Rafsanjani and his pragmatic allies. It soon became difficult to distinguish between Khamenei’s actions as an ally of Rafsanjani and his moves as an Iranian politician out to carve the premier spot for himself in the decision-making process.

This became most evident in October 1989 when Khamenei reshuffled Iran’s National Security Council to include just about every known rival of Rafsanjani. Among the rivals were Ahmad Khomeini [son of Ayatollah Khomeini] who until that time had never held an official position in government; Mohammad Musavi Kho’iniha, the religious guide of the students who occupied the American Embassy and Khomeini’s Hajj propaganda point man; and Mehdi Karrubi, the Speaker of Parliament, a radical voice in the *Majlis*.<sup>45</sup>

President Rafsanjani had underestimated the political aspirations of Ayatollah Khamenei. Rafsanjani was buoyed, no doubt, by the fact that his partner in the diminutive, Khamenei, not only shared his view of the need to reconstruct the country, but similarly lacked the qualifications associated with Ayatollah Khomeini, and would leave the President to run Iran as a powerful executive.<sup>46</sup>

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<sup>44</sup> Ibid., p. 16-17.

<sup>45</sup> Ibrahim, p. 1.

<sup>46</sup> Amir Taheri, Teheran: Le Thermidor Avorte, *Politique Internationale*, No. 64, Summer 1994, p. 7. Quoted in *Adelphi*, Paper 296, p. 18.



Fearful that increasing conservative and social criticism of the economic reforms might further impinge on support for clerical regime, Khamenei decided to ally himself the ruling conservative elite. Perhaps Rafsanjani should have anticipated such a reversal by Khamenei. After all given his limited religious qualifications, the use of his considerable political clout to bring and end to the reforms could increase his conservative and radical constituency and perhaps also boost his meager religious credentials.

By the time the 1992 *Majlis* was elected, a clear split was evident between the goals of Rafsanjani, pragmatists, conservatives, and radicals. Although Rafsanjani and the conservatives had formed a *de facto* alliance to remove radical opposition, it didn't last long. Many conservatives may have honestly believed that, in the long run, reform was necessary to preserve the system. But, in the short term, reforms were creating hardships across the entire social spectrum, threatening the financial interests of the powerful as well as the survival of "their" political system and source of power and patronage. They simply saw no gain in reforming themselves out of existence. Therefore, although the radicals were eliminated from the *Majlis* (but still a vocal opposition voice) the conservatives began to rival them by greater success in blocking meaningful reforms.

To make matters worse, when Rafsanjani began his second term as president in 1993, Khamenei exercised even greater political power and undercut his ability to appoint reformers to important ministries. Those that were appointed were hard-line conservatives dedicated to their own narrow interests. Unfortunately, many of

these interests would soon be played out internationally as elements of Iran's radical foreign policy.

**b. Khamenei's Bid For Dominance**

It appears that Khamenei's goal was to preserve face for many of these radical leaders and discourage them from openly breaking with the regime. However, undoubtedly he also wanted to maintain a system of check and balances against Rafsanjani and reinforce his own position within the regime and among the hard-liners. As was apparent, Khamenei was able to successfully check many of Rafsanjani's attempts to moderate Iranian foreign policy.

When Rafsanjani and his pragmatics began brokering for the release of Western hostages held by pro-Iranian *Hizbullah* forces in Lebanon, and succeeded in gaining their release, he was reprimanded by Khamenei. When the hostages were freed without a reward from Washington, such as the release of Iran's frozen assets, Khamenei said Rafsanjani had allowed Iran to be "duped by America."<sup>47</sup>

Another conflict, said to have arisen between Rafsanjani and Khamenei, involved the lingering Salman Rushdie issue. Rafsanjani, it is said, hinted at the dissolution of the shadowy 15 *Khordad* foundation which had placed a two million dollar bounty on Rushdie. In rebuttal, Ayatollah Khamenei went on state radio and declared that

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<sup>47</sup> *The Times*, 12 August 1994.

the edict against Rushdie was more than a *fatwa*. It was a *hokm*, which is a ruling that Muslims worldwide were duty-bound to obey.<sup>48</sup>

## **I. FOREIGN POLICY "FREE-FOR-ALL"**

With divisions within Rafsanjani's fragile coalition becoming wider, Ayatollah Khamenei's defection from the alliance ended any hopes the pragmatists had for centralizing power within a consolidated government. As the various clerics settled into their respective positions in the councils, Majlis, and government ministries, factional alliances were being formed and compromises were being made.<sup>49</sup> Some of these compromises undoubtedly involved granting permission to assassinate Iranian opposition figures outside Iran. One such operation occurred in Germany and captured a great deal of attention.

### **1. Non-Traditional Diplomacy**

In 1992 Iran became the center of European attention when German prosecutors began investigating charges that Iran's Spiritual Leader Ayatollah Khamenei, President Rafsanjani, and Intelligence Minister Ali Fallahiyan ordered the assassination of four Kurdish dissidents. While Iran denied the charges and condemned the trial as politically motivated, the German government stated there would be grave consequences if the allegations were proven.

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<sup>48</sup> *The Times*, 12 August 1994.

<sup>49</sup> *Middle East Policy*, Vol. II, 1993, No. 3, p. 130.

When the trial concluded, the court had found that the highest levels of Iran's leadership ordered an "official liquidation" of the Kurdish dissidents. The court imposed two life sentences, one on an Iranian and the other on a Lebanese. The court's decision triggered a round of diplomatic tit for tat as European governments recalled their ambassadors from Iran while the Iranians responded in kind.<sup>50</sup> Iran's image as an outlaw nation that commits state-sponsored terrorism was intensified.

However, with the exception of several "loud" protests outside Germany's embassy in Tehran, Iran didn't respond as many expected. Officially Iran issued strongly worded protests against the court's ruling, but in the same breath stated they wanted good relations with Germany. Iran's foreign minister said his government drew a distinction between the court and the Bonn government.<sup>51</sup>

*a. Revolutionary Legacies*

If the foreign minister's comments were true, that Iran wanted good relations with Germany, why did the Iranian regime take such diplomatic risks to kill the dissidents? I believe this can largely be attributed to the fact that Iran's fragmented government essentially made it impossible for Rafsanjani to establish firm control over radical elements within his own government. This lack of strong central control made it very easy for individual groups, many with extremely tenuous ties to government, to engage in a foreign policy "free-for-all."

The patterns of actions suggests that these practices originated in the early 1980s, when the Islamic leadership faced a massive domestic terrorist threat. The Iranian response to this threat was apparently to establish one

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<sup>50</sup> Ibid.

<sup>51</sup> Ibid.

or more covert units, possibly buried deep within the intelligence agencies, to hunt down and destroy perceived threats to the revolution. This kind of shadow warfare is hardly unique to Iran. But the evidenced suggests that these units in Iran have acquired a life of their own, launching operations on an opportunistic basis with little interference by [or knowledge of] central authorities and no apparent coordination with Iran's foreign policy agenda.<sup>52</sup>

The ministry most likely responsible for the majority of the "foreign adventures" carried out in the name of the Islamic Republic is the Ministry of Intelligence and Security (MOIS). Staffed by post-revolution as well as "reformed" SAVAK officers, this ministry has been implicated in a wide range of regional and international covert operations; and has earned the reputation as one of the most active and ruthless intelligence services in the world. During the last decade, the MOIS was headed by the hard-line minister Ali Fallahiyan.<sup>53</sup>

Fallahiyan, a man possessing impeccable revolutionary credentials and an able organizer, had been a long time devotee of Ayatollah Khomeini's revolution. Like most senior officials in the Islamic Republic, he possessed a strong background in religion, reportedly having studied theology in Najaf (Iraq), Isfahan, and Qom. His devotion to the revolution was evident early on when he headed an action committee whose task was to burn cinemas, bookshops, girl's schools and other "places of sin" in Isfahan. After Khomeini won power, Fallahiyan was chosen to lead a special squad charged with hunting down officials of the Shah's former regime. In 1984 he joined the

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<sup>52</sup> Gary Sick, "The Two Faces of Iran; Rafsanjani's Moderation, The Mullah's Holy Terror," *The Washington Post*, 4 April 1993, Section: Outlook, p. C1 (LEXIS-NEXIS).

<sup>53</sup> Bizhan Torabi, "Teheran's Chief Spy Keeps A Low Profile After German Arrest Warrant," *Deutsche Presse-Agentur*, 20 March 1996 (LEXIS-NEXIS).

newly-created Ministry of Intelligence and Security as director of counter-espionage. In 1988 he was appointed Minister for Intelligence and Security.<sup>54</sup>

The minister of intelligence is considered to be the regime's fifth most powerful position, a member of the High Council of National Security (the country's supreme decision-making body) and Inspector-General of the Armed Forces. Fallahiyan was also a member of the Special Court, a tribunal which deals with charges against senior clergy. In his various capacities his approval was required for high-level appointments in the army, the civil and the diplomatic services.<sup>55</sup>

As indicated by the German courts, it was agents of Fallahiyan's ministry which were responsible for the assassination of the Kurdish opposition figures in Berlin. The court verdict is perhaps further supported by a boast the MOIS minister made two days before the Germany court issued a warrant for his arrest.<sup>56</sup> Speaking on Iranian television, he presented an end of year progress report on his ministry's achievements. Among the ministry's boasted achievements was "the elimination of the enemies of the revolution abroad," an obvious reference to the assassination of the four Kurds gunned down in Berlin as well as other enemies of the state who had met a similar fate.<sup>57</sup>

## **2. Rafsanjani's "Horse-Trading"**

Another complimentary rationale for Iran's often contradictory foreign policy actions in these cases further illustrates the vulnerability of Rafsanjani's unconsolidated regime. Unable to effectively push through controversial domestic reform programs,

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<sup>54</sup> Ibid.

<sup>55</sup> Ibid.

<sup>56</sup> Ibid.

<sup>57</sup> Ibid.

Rafsanjani and his pragmatic camp may have had to resort to a form of "horse-trading" to achieve their broader goals.

Rafsanjani has shown growing ability to dominate a great many of the policy-making circles, but he is least successful when it comes to Muslim issues and ideological issues. He is even inclined to give these issues away, at least he has in the past.<sup>58</sup>

The new alliance of the conservatives and radicals that had risen to dominate Iran after the 1992 Majlis elections had essentially neutered Rafsanjani and the pragmatists. By late 1995 and early 1996 Rafsanjani and his reformers were under increasing pressure from hard-liners, especially those in the *Majlis*, who had been calling for the impeachment of him and his cabinet. With little hope of achieving any effective leverage over foreign policy formulation Rafsanjani may have held out some hope that by turning a blind eye he could win some concessions from the radicals on domestic economic reforms. While having little realistic choice, he undoubtedly hoped that the costs of his acquiescence would not be too great.

### **3. Forces Beyond Control**

While Rafsanjani may have indeed hoped to "deal" with his reform resistant opponents in government, his ability to entice all of the powerful forces in Iranian society was extremely limited. Among these forces is the Iranian Revolutionary Guards Corps (IRGC) which is answerable only to Iran's Supreme Leader. The IRGC has been suspected of supporting opposition groups in many of the Gulf countries that allied themselves with Iraq during the Gulf War. The Guards Corps also maintains positions at

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<sup>58</sup> Fuller interview, *Middle East Policy*, Vol. II, 1993

all Iranian embassies from which they have recruited agents for operations. They have funneled financial and material support to foreign insurgents and groups such as *Hizbullah*, *Hamas*, *Islamic Jihad*, *Moro* (secessionists in the Philippines), and Algeria's Islamic Salvation Front.<sup>59</sup>

While Rafsanjani has at times appeared to challenge the activities of some of his government's less accountable organizations, he has not had much success. As an example, Rafsanjani was thwarted in his efforts to curtail the activities of the *Hizbullah* commander responsible for the kidnapping of Western hostages in Beirut in the 1980s. Moreover, the individual, Emad Mughniyeh, was awarded his own section, the Department of *Qods* (Jerusalem) Operations within the Ministry of Intelligence and Islamic Guidance, which was allegedly tasked with targeting soft Israeli and Jewish targets around the world.<sup>60</sup> According to a CIA testimony before the US Senate intelligence committee, it was Mughniyeh's section which is believed to have recruited from among the Shi'i Muslim community in Argentina to organize the 1994 bombing attack on the Jewish center in Buenos Aires.<sup>61</sup> As an indication of just how removed the president may have been from operations such as these; reports have alleged that Rafsanjani was not informed of the planned operation and reacted with a great amount of indignation in his next meeting with Ayatollah Khamenei.<sup>62</sup>

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<sup>59</sup> Al Venter, "Iran Still Exporting Terrorism to Spread Its Islamic Vision," *Jane's Intelligence Review*, Section: Southwest Asia; Vol. 9; No. 11, p. 511 (LEXIS-NEXIS).

<sup>60</sup> *The Times*, 12 August 1994.

<sup>61</sup> Ibid.

<sup>62</sup> Leslie Plommer, "Ayatollah's Legacy is Iranian Isolation," *The Guardian*, 4 June 1994, p. 17.



Other forces which have consistently been beyond the pragmatists ability to control are the shadowy compartmented groups and foundations answerable only to Iran's Supreme Leader—and that many even be a tenuous chain of command. These groups, often identified collectively as the *Bonyad-e Mostaza'faan* (Foundation of the Oppressed) are suspected of supporting MOIS and IRGC operations, to include direct funding of foreign political and dissident groups.<sup>63</sup>

These semi-private and ostensibly charitable foundations are in command of billions of dollars derived from companies they own in Iran and throughout the world. It was one of these bonyads, the Bonyad-e 15 Khordad, that has offered the \$2 million reward for the assassination of Salman Rushdie. Behind these bonyads stands the political clergy. And behind them stands the still powerful ghost of Khomeini.<sup>64</sup>

The *bonyads* can be an extremely effective tool for their hard-line supporters in Iran. Because these groups have no official ties to the government, the regime retains a level of plausible deniability for their actions. Of course this assumes the *bonyads* are even implicated at all. Because the *bonyads* have no shareholders, no public accounts, and answer only to Khamenei they are able to operate with a high degree of secrecy. In some cases, when operations are developed using several levels of "cut-outs," recipients of *Bonyad* support may not even know the identity—let alone the nationality—of their generous benefactor. Such may have been the case when Bahrain's government continuously accused Iran in 1996 of supporting insurgents attempting to topple its government. Similarly, the domestic dissident groups allegedly responsible for attacks

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<sup>63</sup> Ibid.

<sup>64</sup> Ibid.

on US military targets in Saudi Arabia may also unknowingly owe their successes to Iran's "NGOs."

Meanwhile, Rafsanjani and other Iranian officials were left to deny (albeit in most cases untruthfully) that "Iran as a state" was not involved in the acts of which it was accused. Nevertheless, the US and most other governments refused to make a distinction between official and unofficial Iranian actions and many countries have joined with the US in supporting severe economic sanctions against Iran. The result for Iran was a continuance of inter-government factionalism as hard-liners sought to safeguard their positions by strengthening social controls on Iran's population and deflect blame for the failed reforms on the pragmatics.

## **J. THE SEEDS OF REVOLUTION**

As Iran's middle and lower class population continued to suffer from the country's economic malaise, an increasing percentage felt change was impossible if it depended on the corrupt and self-serving clerical government. This feeling was best represented in the abysmal turn-out for the 1993 presidential election. When the number of voters participating in the political process was tabulated, it represented only 57 percent of the republic's eligible voters – the lowest turn-out since the establishment of the Islamic Republic.<sup>65</sup> The society's pessimism was no doubt further reinforced after the 1996 Majlis elections. As the elections approached, greater demand for political pluralism was evident and several political groupings were endorsing slates of technocrat

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<sup>65</sup> Hashim, p. 21.

candidates.<sup>66</sup> However, the right-wing conservative clerical faction was well aware of the threat the technocrats represented. As a result, the conservative clerics, with a strong endorsement from *bazaaris*, rose up again, labeled the technocrats “liberals” and ultimately succeeded in shutting them out.<sup>67</sup>

As a result of these examples, and the legacy of clerical corruption and self-aggrandizement, a growing segment of Iran's population began to join the ranks of those who have traditionally questioned the form and effectiveness of the government installed by the revolution.

In spite of the early intellectual opposition to *velayat-e-faqih*, grassroots opposition did not form quickly. However, as the failures of the regime continued unabated, the majority of society began to see the gap between themselves and the wealthy ruling clergy (both conservative and radical) continuing to grow. An increasing alienation began to take place. One way in which this alienation has manifest itself in society is a visible decrease in devotion to Islam – the regime's Friday sermons that preached the virtues of Islam began falling on deaf ears.<sup>68</sup> Even more troubling for the political clergy is the effect alienation is having on the urban poor (*mostaza'faan*). Having increasingly come to feel that they have been betrayed by the leaders of “their” revolution, they have begun to vent their frustrations in violent activities.

Consequently, in failing to live up to its post-revolutionary promises, the clerical

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<sup>66</sup> Stephen C. Fairbanks, “Theocracy Versus Democracy: Iran Considers Political Parties,” *The Middle East Journal*, Winter 1998, Vol. 5, No. 1, p. 23-24.

<sup>67</sup> *Ibid.*, p. 24.

<sup>68</sup> Edward Shirley, “Iran's Present, Algeria's Future?” *Foreign Affairs*, May-June 1995, p. 39 (LEXIS-NEXIS).

regime has lost the enormous base of popular support it enjoyed in the early days. By 1995 it was estimated that Iran's theocratic style of government has the support of less than 15 percent of the population.<sup>69</sup> Such was the state of affairs Iran's current president Mohammad Khatami inherited in August 1997.

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<sup>69</sup> Richard Cottam, Ellen Laipson, and Gary Sick, "Symposium: US Policy Toward Iran: From Containment to Relentless Pursuit?" *Middle East Policy*, Vol. IV, Nos. 1&2, September 1995, p. 10.



#### IV. KHATAMI'S FOREIGN POLICY GRAND STRATEGY & THE PAYOFFS OF RAPPROCHEMENT

More than any event since the revolution, the election of President Khatami in 1997 highlighted the pervasive dissatisfaction present within Iranian society. Khatami's election represented more than just a vote for a particular president, it was a call for a total change in the political, economic, and social climate of Iran. Now, one year later, Iranians have begun to enjoy some of the fruits of "their victory." However, while there are now fewer social restrictions and a freer press, Iran's economic condition has seen little improvement. Iran continues to suffer from the legacies of the early years of the revolution, in particular the disastrous eight year war with Iraq and the long-running corrupt and inefficient management of state-owned businesses and government bureaucracies.

Iran's 1997 presidential election came at a time of widespread economic discontent. A year before the rate of inflation peaked at about 50 percent. Recent figures indicate that it has dropped down to about 23 percent.<sup>70</sup> After years of stagnation, Iran's GDP is finally expanding at a steady rate of 3 to 4 percent, but oil production is still down more than 30 percent since 1979 and unemployment remains high with few job prospects for the young.<sup>71</sup> The 1997 predictions state Iran needs \$100 billion for the next ten years, in addition to projected oil exports, to finance a budget that would only maintain the status quo.<sup>72</sup> Keeping up with debt payments totaling over \$35 billion,

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<sup>70</sup> Robin Wright and Shaul Bakhash, "The US and Iran: An Offer They Can't Refuse," *Foreign Policy*, No. 108, Fall 1997, p. 126.

<sup>71</sup> Ibid.

<sup>72</sup> "Hate Me, Love My Gas," *The Economist*, 4 October 1997, p. 51.

which is increasing in principle and interest, will make it very difficult for Iran to fund any sizable growth in its economy or industry.<sup>73</sup>

While Iran's economic woes are not nearly as severe as those of many other third-world countries, Khatami's promises of reform created grand expectations among Iranians. These expectations continue to be reinforced as the more open press increasingly publishes stories revealing that the standard of living for most middle-class Iranians has declined since the revolution.<sup>74</sup>

Increasingly people want straight answers to their economic woes. A rising unemployment and inflation rate, coupled with a sharp decline in oil prices world wide, have hurt the nation as a whole... The average man or woman on the street is really not interested in economic statistics or details. It is a bread and butter issue. It is as simple as that. Economic survival is what counts, many heads of households are working two or three jobs and are still not making ends meet. There is a general feeling among political analysts that government is underestimating the degree of people's discontent about economic problems.<sup>75</sup>

In this chapter I will argue that Khatami and his pragmatic alliance are not underestimating the significance of their constituency's discontentment. On the contrary, Khatami realizes the number one determinant of his coalition's survival depends on improving the country's economy. In response to this imperative he and his team have developed a foreign policy strategy capable of achieving economic recovery and at the same time having the broader collateral effects of reducing domestic opposition (thereby

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<sup>73</sup> Ibid.

<sup>74</sup> Iran's media (conservative, liberal, and Iran's official Iran News Agency) increasingly have published reports critical of the Islamic Republic's economic management since the 1979 Revolution. See articles such as, "Economic Discontent," a 26 May 1998 editorial published in Iran's English language *Iran Daily*.

<sup>75</sup> "Economic Discontent," *Iran Daily*, 26 May 1998, Section: Editorial. Quoted by *Iran News Agency*, <http://www.irna.com/newshtm/eng/05004552.htm>.

winning greater social and political freedom) and ending Iran's reputation as the world's premiere state sponsor of terrorism. The foreign policy tactic which Khatami has chosen to employ to achieve his strategy involves liberalizing the economy through greater regional cooperation—specifically sending positive signals and making slow, yet perceptible, movements toward rapprochement with the US.

In light of the political, as well as personal, risks this strategy presents to Khatami, there is little doubt he wishes there were another way for him to deliver the needed reforms. The fact some might like to imagine that Khatami honestly longs for a make-up between his country and the US is of no consequence, the stark reality of the US' domination of the global environment, and Iran's domestic needs, leave Khatami little choice.

#### **A. ECONOMIC LIBERALIZATION AND COOPERATION THEORY**

Of particular assistance in understanding what I believe is Iran's motivation for rapprochement with the US is Etel Solingen's work, "Democracy, Economic Reform and Regional Cooperation."<sup>76</sup> Although geographically the US is distant from Iran, its global presence in the world's economic market has enabled it to stand in the way of many of Iran's economic aspirations. Therefore, Solingen's theories are suitable for analyzing Iran's foreign policy relative to the US. Solingen describes the relationship between economic liberalization and regional cooperation this way:

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<sup>76</sup> Etel Solingen, "Democracy, Economic Reform and Regional Cooperation," *Journal of Theoretical Politics*, Vol. 8, No. 1, January 1998.



Political coalitions more strongly committed to economic liberalization are also more likely to undertake regional cooperative postures. In contrast, coalitions aggregating nationalist and statist interests [Iran's hard-line clerical ideologues] might be expected to endorse less cooperative positions vis-à-vis regional partners.<sup>77</sup>

This is not the traditional argument of cooperation driven by interdependence, but rather a more non-traditional theory which assumes that political coalitions cooperate regionally to safeguard their domestic interests and, in the case of Iran, to promote their interests. As Solingen states, "Quite often, the interests of political coalitions favoring broader economic liberalization (market oriented, privatizing, state-shrinking reforms) require openness to global markets, capital investments, and technology."<sup>78</sup> When I began to analyze Solingen's theories, I realized they could serve as a virtual overlay for Iran's current political and economic environment.

Khatami's pragmatic coalition is certainly composed of, and appeals to, many of those elements Solingen identifies as beneficiaries of economic reform: professional groups, such as technical, scientific, educational groups; those involved in export-oriented enterprises; members of the banking establishment; advocates of greater industrial development; and service oriented enterprises.<sup>79</sup> Some of Khatami's most ardent supporters are the country's commercial elite who want an opening with the US. Although Iran's trade with the EU is generally in the range of \$5 billion, the

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<sup>77</sup> Solingen, p. 80.

<sup>78</sup> Ibid. p. 87.

<sup>79</sup> See Solingen's section on "Liberalizing Coalitions," p. 87.

US boasts the largest and, given continuing turmoil in Asia, the most stable markets. These businessmen realize the world's global economic highway goes through Washington.

## **B. THE CASE OF IRAN**

Iran has clearly been demonstrating its desire to pursue economic recovery through the liberalization of its economy. Since the end of Rafsanjani's second term as president a consensus has begun to develop on what is the best "economic path" for the Islamic Republic. Privatization of state-owned companies, a central element of Khatami's economic reform plans, is now more widely accepted—even among former conservative opponents.<sup>80</sup> The new economy and finance minister, Hossein Namazi, is committed to the reform program, and has the backing of the central bank governor, Moshen Nourbakhsh.<sup>81</sup> Even the new commerce minister, Mohammed Shariatmadari, a conservative by reputation, seems ready to accept the inevitability of economic reform.<sup>82</sup>

The Majlis and the government have been conferring on new economic contingency plans which have been drawn up to take into account the 25 percent drop in oil revenues. The drop in oil prices will cause Iran major problems in paying for subsidized goods and providing hard cash for its industries.<sup>83</sup> Iran's need for reform is made all the more exigent since the fall in oil profits comes at a time when it has to make

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<sup>80</sup> "Towards Privatization," *Iran Daily*, 10 May 1998, p. 3 (LEXIS-NEXIS).

<sup>81</sup> Ibid.

<sup>82</sup> "Iran: Outlook for 1997-98," EIU Country reports, *The Economist Intelligence Unit Ltd.*, 4 September 1997 (LEXIS-NEXIS).

<sup>83</sup> Statement made by the Governor of Iran's Central Bank. Quoted in *Middle East Business Weekly*, Vol. 42, No. 21, 22 May 1998, p. 23.

foreign debt repayments totaling \$4 billion to \$5 billion over the next year.<sup>84</sup> In spite of the economic hardship the scheduled repayment will cause, Iran's central bank has stated that payments will be made on schedule even if Iran must draw from its \$8 billion to 10 billion in foreign exchange reserves.<sup>85</sup>

### 1. Iran's Economic Isolation

Iran's "Neither East nor West" ideology made it one of the most isolated countries in the world. Khatami, like his predecessor Rafsanjani, acknowledges that this ideology, and many of the foreign policy choices accompanying it, have resulted in an Iran that has failed to self-actualize economically since the revolution.<sup>86</sup> Furthermore, US sanctions and trade embargoes are viewed by many of Khatami's liberal economic advisors as the primary barriers to Iran's future economic and industrial development.<sup>87</sup>

During the last quarter century the world has developed into a more global economy. The formation of global capital markets has created a concentration of power capable of influencing national government's economic policy and, by extension, other policies as well. These markets now exercise the accountability functions associated with citizenship.<sup>88</sup>

In today's global economy, economic markets can essentially "vote" a government's economic policies up or down and they can force governments to move in one direction over another. In addition, this "globalization" has brought with it higher

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<sup>84</sup> "New Economic Plans Debated in Majlis," *Middle East Business Weekly*, 22 May 1998, Vol. 42, No. 21, p. 23.

<sup>85</sup> Ibid.

<sup>86</sup> Steve Yetiv, "So What's Behind Iran's Overture to the US?" *Christian Science Monitor*, 16 January 1998, p. 19 (LEXIS-NEXIS).

<sup>87</sup> The US's 1987 Iran-Libya Sanctions Act (ILSA) requires the President to penalize companies that invest more than \$20 million a year in the oil and gas operations of Iran or Libya. The US accused Iran and Libya of a role in sponsoring terrorism and opposing Middle East peace efforts.

<sup>88</sup> Saskia Sassen, *Losing Control? Sovereignty in an Age of Globalization* (New York: Columbia University Press, 1995), p. 40

levels of trade, direct foreign investment, and economic cooperation. Countries that are able to actively participate in the global economic market reap the economic benefits, while those forced to the sidelines do not. In the case of Iran, the US has acted as a break on many of its economic aspirations—forcing it to the sidelines.

## **2. Either East or West—The Obvious Choice**

Iran's pragmatists faced a choice of orienting their foreign policy toward the East—Russia and China, or West—toward the EU and the US. Their requirements ultimately dictated their direction.

There are several things Iran must acquire through its foreign policy: investment to develop its economy; technology, not only for the oil sector, but in other industrial areas; and an easing of tension internationally and in the region, so that Iran can develop its strategic position between the Caspian and the Persian Gulf, and go ahead with plans to build oil pipelines from Central Asia.<sup>89</sup>

Although both China and Russia are both interested in Iran for its strategic location and large oil and gas reserves, neither country is capable of meeting Iran's requirements for large levels of financing and Western industrial goods. Consequently Iran has been forced to mend fences with the EU and, more importantly, make cautious approaches to the US.

Since the days of Rafsanjani's first five-year plan in 1987, Iran's more liberal economic advisors have been calling for bolder political reform to pave the way for economic recovery. However, there have always been four main barriers: the president's

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<sup>89</sup> Kijan Khajenpour, comments during a Royal Institute of International Affairs conference, "Iran: Looking East or West?" *Royal Institute of International Affairs*, November 1997 (LEXIS-NEXIS).

limited authority to make policy independent of the *Faqih* (the Supreme Leader); strong conservative opposition to economic reform; vociferous objections to any rapprochement with the West by hard-liners and many conservatives; and a strong distrust of the West and uncertainty of the US response.<sup>90</sup> Although most of these barriers remain (albeit in somewhat weaker form) Khatami's tactics are capable of weakening and even defeating them if he can overcome, or at least "side-step," the first one—his inability to open an "official" dialog with the US. It appears Khatami's coalition is hoping they can open an unofficial dialog which would act as a precursor to full rapprochement and, in the meantime, develop fuller trade relationships with other countries and especially U.S. companies.

Khatami's first indication that such a strategy might be possible, and even worth consideration, came in August 1997 immediately after his election victory. In a congratulatory message delivered through a Swiss intermediary, the US government signaled their desire for better relations with the Islamic Republic.<sup>91</sup> Although this was a very modest signal it appears to have persuaded the new president that his risk-taking could result in some dividends. In response, Khatami and his allies have stepped up Iran's engagement regionally and globally hoping to take advantage of the benefits cooperation offers.

### **3. Collateral Benefits Of Regional Cooperation**

What I find most compelling about Solingen's theories of liberalization and

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<sup>90</sup> "Iran's Whiff of Liberalization," *The Economist*, 9 May 1998, p. 43.

<sup>91</sup> Steve Yetiv, "So What's Behind Iran's Overture to the US?" *The Christian Science Monitor*, 16 January 1998, p. 19 (LEXIS-NEXIS).

regional cooperation are the three advantageous consequences of cooperative regional postures and the fact that they mirror exactly the goals I believe Iran's pragmatists aspire to achieve. The consequences are: 1) accessing foreign markets, capital, investments, and technology; 2) weakening groups and institutions opposed to reform; and 3) freeing up resources to carry out reform at home. To illustrate their correlation and significance to Iran's foreign policy makers I will address each consequence separately.

*a. Accessing Foreign Markets, Capital, & Investments*

The first consequence is securing access to foreign markets, capital, investments, and technology.<sup>92</sup>

(1) Iran's Economy—Not What It Could Be. In spite of the fact that Iran sits on, and near, a tremendous wealth of natural resources, the US has been able to use its influence within the world economy to successfully inhibit Iran's development and economic self-actualization.

While trade contracts have been signed with many countries unwilling to support US sanctions, they have not been able to provide the price, quality, and expertise necessary for the development of Iran's important oil industry. As Iran's US-origin infrastructure has continued to age it has been forced to pay higher prices for less desirable substitutions.<sup>93</sup> Additionally, although some countries have risked

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<sup>92</sup> I have listed these consequences in a different order than Solingen did in her study. I identified the economic benefit first because I believe is the primary focus of the pragmatists and the main driver for their rapprochement efforts toward the US.

<sup>93</sup> See Jahangir Amuzegar's article, "Iran's Economy and the US Sanctions," *Middle East Journal*, Vol. 51, No. 2, Spring 1997.

challenging the US, others have been much more circumspect with regard to their relations with Iran.

US sanctions have had their greatest impact on Iran's rescheduling of short-term loans and overdue debts. As evidence of US domination of the global economic market, Iran has been unable to win the favor of the International Monetary Fund (IMF) and undergo multilateral negotiations with all of its creditors simultaneously under the Paris Club process.<sup>94</sup> Instead, Iran has been forced to deal individually with its creditors, and had to settle for less favorable loan conditions.

Iran essentially admitted the need for US help when it granted the US oil company, Conoco Inc., the contract to develop its Sirri offshore oil fields in the Persian Gulf. This was an event of profound political significance. The \$1 billion contract was Iran's first agreement with a foreign oil company since the Islamic Revolution.<sup>95</sup> "That this agreement was reached with a US oil company was not without political implications. One explanation is that the Islamic Republic was clearly differentiating between oil business and politics."<sup>96</sup>

(2) So Much Potential—So Little Capital. Iran has announced that it considers foreign involvement to be an important element in reforming the economy.<sup>97</sup>

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<sup>94</sup> Jahangir Amuzegar, "Iran's Economy and the US Sanctions," *Middle East Journal*, Vol. 51, No. 2, Spring 1997, p. 193.

<sup>95</sup> "Sanctions Showdown," *Oil and Gas Journal*, 13 October 1997, p. 31.

<sup>96</sup> Ibid.

<sup>97</sup> Vahe Petrossian, "Now for the Hard Part," *Middle East Business Weekly*, Vol. 42, No. 11, 13 March 1998, p. 3.

Officials say local industry not only wants foreign funds but also need better management and technology.<sup>98</sup>

It is quite conceivable that before the end of the decade, Iranian exports of processed metals could double to reach \$1 billion. If Iran acquired foreign help, however, given its domestic aptitude and the low price of labor, it could take a major leap in exports. The same could be said about Iran's nascent auto industry. If political obstacles were surmounted, its reasonably priced skilled labor and its large domestic market would make Iran an attractive site for foreign investment in these sectors. Iran already has in place a vibrant petrochemical industry.<sup>99</sup>

(3) Iran's Regional Economic Aspirations. Iran's pragmatists realize Iran's strategic significance goes well beyond its own oil and gas reserves and production capabilities. Looking north they see the Central Asian states (CAS) and the richest oil fields outside the Persian Gulf, with twice the reserves of the North Sea and Alaska combined, and equally huge quantities of natural gas. Iran sees tremendous opportunities to apply the considerable expertise of its oil industry in the region.<sup>100</sup> However, US sanctions and its influence over agencies such as the IMF and World Bank (WB) have successfully defeated Iranian ambitions to acquire the technology and financial assistance they need to play a more dominant role. Nevertheless, in spite of their disappointment at not being able to play a larger role in the development of oil and gas resources within the CAS, Iran is aggressively promoting itself as the land bridge connecting Central Asia to the outside world.

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<sup>98</sup> Ibid.

<sup>99</sup> "Gulf Stability," *The Washington Report on Middle East Affairs*, April 1996, p. 90.

<sup>100</sup> Ibid., p. 77.



Iran is hoping to create an interdependence with the CAS to stimulate its own economy. It wants to become the most significant access the outside world has to the CAS .... Moreover, this access will go further toward de-linking the CAS from Russia and tying them closer to Iran.<sup>101</sup>

However, here too the US has acted as an effective blocking force; opposing any plan that involves trans-shipment of Caspian oil and gas through Iran to its southern ports. Consequently, Iran has embarked on less effective yet more achievable plan to link all the CAS through a network of road and railway systems. Iran hopes such a network will be the precursor of a pipeline network which would follow a route through central Iran to reach the market. Such a network would earn Iran transit revenue and the ability to dominate, what it hopes will be the region's only outlet.

In addition to benefiting from the extraction of natural resources, Iran has its eye on the tremendous post-independence economic requirements of the region. As Khatami continues Rafsanjani's efforts of economic reconstruction and development, the untapped market of the CAS will continue to beckon. In 1990, Iran's former Minister of Economy and Finance, Mohsen Nourbakhsh, stated that Iran believes the area is a potential market for \$8-10 billion in Iranian exports.<sup>102</sup> All indications are that this forecast remains accurate.<sup>103</sup>

***b. Weakening Of Groups And Institutions Opposed To Reform***

The second consequence of Iran's regional cooperation will be the weakening of groups and institutions opposed to reform. Opposition elements are central

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<sup>101</sup> Ibid., 79.

<sup>102</sup> "Iran and Central Asia," *Middle East Economic Digest*, 15 November 1990, p. 5.

<sup>103</sup> Petrossian, p. 3.

to any analysis of Iranian policy and decision making because Iran's political and social landscape is dominated by opposing factions and competing power centers.

There is evidence that Iran's pragmatic coalition has made considerable headway in weakening many groups and individuals opposed to their reform programs. The fifth Majlis, elected in March and April 1996, is the first since the revolution not to be dominated by a single faction.<sup>104</sup> Although the conservatives still hold a slight majority, much of their strength and legitimacy was further eroded when Majlis Speaker Ali Akbar Nateq-Nuri suffered his embarrassing loss in the 1997 presidential election.

The primary foundation of the hard-line's legitimacy remains its rabid opposition to most things Western and all things American. However, over 20 million voters in Iran have become tired of the rhetoric and view the hard-line clerics as impediments, rather than defenders, of the Islamic Republic. Although the hard-line clergy and their supporters still represent a politically and socially powerful force, they have suffered what may be an irreparable crisis of public confidence.

In order for Khatami to deliver on the mandate given him by 70 percent of Iranian voters, he must take advantage of the hard-line's weakened legitimacy by seeking converts from their ranks to join his coalition and continuing his steady move toward rapprochement with the US. But, wooing conservatives is not an easy task.

If Iran embarked on negotiations with the US, conservatives are convinced that it might force them to give too much. They argue, it would be humiliating if Iran had to abandon fundamental issues such as support for Islamic movements. "If we are to

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<sup>104</sup> "Iran: Political Background," *The Economist Intelligence Unit*, 8 April 1998.

become what America likes, then what was the need for the revolution?" asked a conservative official.<sup>105</sup> Iran's conservatives are particularly horrified at the prospect of being forced to recognize Israel, whose destruction many hard-liners still call for. There are few issues as emotional to the Islamic regime as the Palestinian question.<sup>106</sup>

Recent events in Iran have highlighted what may be a growing desperation among hard-line conservatives fearful of losing what influence they have remaining. Their recent attempts to defeat Khatami through a strategy of indirection has underlined just how desperate the president's opponents may have become.

The detention and interrogation of Tehran's mayor, Gholam-Hossein Karbaschi, singled out and charged with corruption, from among the legions of corrupt officials in Tehran, was an obvious attempt by the hard-liners to indirectly attack Khatami. Karbaschi, known a reformist official who orchestrated President Khatami's highly successful 1997 presidential campaign, is hugely popular among the pragmatists and reform minded in Tehran. Fearing the domestic political risks of directly attacking the popular president, the hard-liners attempted to send an unmistakable signal to Khatami. They may have felt Karbaschi was the perfect sacrificial lamb. However, while it is very likely that Karbaschi has been involved in some level of corruption activity—hardly making him unique among even senior government officials—it was clear to most observers that he was singled out by the hard-liners for his ties to Khatami's camp. Although this strategy may have seemed like a shrewd tactical move by its

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<sup>105</sup> "Never the Twain Shall Meet," *The Economist*, 11 April 1998, p. 33.

<sup>106</sup> Ibid.

creators (probably the conservative controlled judiciary), they must have regretted their choice of tactics. It soon became obvious that they seriously underestimated the huge popular support that existed for the mayor. What they conceived as a plan to weaken pragmatism in the government had the opposite effect.

Instead of reacting in a meek manner such as negotiating and agreeing to scale-down reforms, Khatami and his supporters openly challenged the conservatives and demanded the mayor's release. Iran's interior minister, Abdollah Nouri, publicly expressed "doubts" about the judiciary ministry's "competency," and Culture and Islamic Guidance Minister Ayatollah Mohajerani stated he was "shocked and saddened" and that no one in the president's cabinet had been informed of the arrest.<sup>107</sup> Also coming to the defense of Karbaschi was Rafsanjani and his daughter, Faezeh Hashemi, a member of the Majlis who characterized the judiciary's behavior as "suspect and arbitrary."<sup>108</sup>

The mayor was finally released (although charges were not dropped) after Khatami appealed to Khamenei who subsequently ordered his release. Khamenei's intervention on the side of Khatami is yet another example that he is not as far to the right as some may believe. Khamenei has shown the ability in the past to "jump to the other side" if it serves his interests. However, in this case the symbolism and potential fallout for the conservatives is considerable. Khamenei's willingness to contradict his conservative "allies" in such a public manner and over such a symbolic issue, may have severe repercussions for one of the last bastions of hard-line power within the cabinet—

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<sup>107</sup> Robin Wright, "US Fears Fierce Fight in Iran May Shut Door," *Los Angeles Times*, On-line edition, 8 April 1998.

<sup>108</sup> Ibid.

the justice ministry. The mayor's arrest and Khamenei's subsequent orders to free him may have seriously undercut the authority, and possibly even jeopardized the continued service of hard-line Justice Minister Ayatollah Yazdi.

As if all this was not enough of a blow to the hard-liners, less than a month after his release, the mayor was named the secretary-general of Iran's first official political party since the 1979 Islamic Revolution,<sup>109</sup> further weakening conservative protectionism.<sup>110</sup> It was only a year earlier that the hard-liners had "justified" their refusal to permit the licensing of political parties. At that time the director of the office charged with approving applications for political parties stated that voters did not have much need for political parties because they already had "groups that enjoy public trust, such as the clergymen."<sup>111</sup>

As a result of this discontent, one event that Iran's right-wing clerics will watch very closely will be the outcome of this October's national elections for a new Assembly of Experts. This body of approximately 80 clerics is popularly elected and has the power to choose or remove Iran's supreme leader.<sup>112</sup> If such an assembly were to be

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<sup>109</sup> The ban of political parties currently in effect was enacted in 1981 after almost 100 political organizations sprang up in the two years following the revolution. Some of these parties advocated violent opposition to the clerical regime of government; specifically the Tudeh Party and Mojahedin-e Khalq organizations. The 1981 law was intended to ensure that parties and organizations falling outside the parameters of article 26, specifically that they violated "the basis of the Islamic Republic," would not be permitted. However, the law as it has been administered has effectively outlawed political parties because the institution charged with vetting applications, the Article 10 Commission, has not granted a single permit since 1981. For more information see *Constitution of the Islamic Republic of Iran*, trans. Hamid Algar (Berkeley, CA: Mizan Press, 1980), p. 38.

<sup>110</sup> "Iran Takes Steps Toward Multi-Party Democracy," *BBC World News*, On-line edition, 20 May 1998.

<sup>111</sup> *Akhbar*, 21 January 1997. Quoted by Stephen C. Fairbanks, "Theocracy Versus Democracy: Iran Considers Political Parties," *The Middle East Journal*, Winter 1998, Vol. 5, No. 1, p. 28.

<sup>112</sup> "Iran to Choose New Assembly of Experts in October," *Washington Post*, On-line edition, 10 May 1998.

dominated by liberal clerics it could pose a serious threat, not only to the security of individual hard-liners, but to the entire institution of *velayat-e-faqih*.

It appears that most conservatives, and perhaps also some hard-liners, are awed by Khatami's election victory and continued popularity. This is most apparent given the fact that few seem willing to oppose him directly. Their choice is no doubt influenced by the fact that their own political survival will be decided in less than two years during the *Majlis* elections in 2000. Therefore, if Khatami can maintain his popularity by delivering on at least some of his promises, it is quite unlikely that the *Majlis* will not oppose him as often as might be expected.

In spite of the fact that Iran's style of democracy is often derided as "illiberal," the strength of the popular vote as a factor in restraining political action in the Islamic Republic is very apparent.<sup>113</sup> However, when examining Iranian clerical political system one must also factor in the dynamics of public opinion within Iran's *Shi'i* branch of Islam.

Public opinion is very important in *Shiite* society. In the *Shiite* structure, the jurist's standing is a function of his popularity. He climbs up the ladder not just thanks to his knowledge and degrees, but also thanks to his popularity and the number of his emulators. Hence *Shiite Marja's* (Sources of Emulation) are mindful of public opinion and hesitate a lot before taking any stand that runs counter to the people's aspirations. This has greatly boosted Khatami and prompted *Shiite Marja's* to refrain from opposing him publicly, not necessarily because they accept him but in order to avoid clashing with the people. It should also be borne in mind that ordinary citizens are the main source of funding for the *Marja's* through the alms they pay.<sup>114</sup>

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<sup>113</sup> "Iran: Political Stability," *The Economist Intelligence Unit*, 1 September 1997, p. 42.

<sup>114</sup> Fahmi Howeidi, "How Khatami is Battling his Opponents," *Mideast Mirror*, 21 April 1998.

To date Khatami has been remarkably successful in putting a dent in the armor of his right-wing opposition. To appreciate this one has only to take a look at who has been forced out of government ministries and the political mainstream. Many hard-liners, including the ministers of intelligence and defense, the commander of the Revolutionary Guards, dozens of lower level officials with militant and anti-Western leanings, and many more *Imam Jomehs* (Friday prayer leaders) have been replaced with members of the president's pragmatic coalition.

*c. Freeing Up Resources To Carry Out Reform At Home*

The last consequence of regional cooperation is the freeing up of resources to carry out reform at home. In the case of Iran this refers to reducing the preoccupation on exporting the revolution through regional meddling and state sponsorship of terrorism. This is an area in which Iran's pragmatists have been laboring for some time. Unfortunately, due to their weaker political position and the extreme sensitivity of these ideological symbols, the pragmatists have had a difficult time reorienting Iran's resources for more beneficial domestic purposes. However, they have not been without some successes.

(1) Cease-Fire With Iraq. The first area in which the pragmatists had an effect was bringing an end to the prolonged war with Iraq. Radical revolutionary groups, previously supported by Khomeini, had believed the war must continue until a final victory for Iran was achieved because only this outcome would bring a "new Islamic era" to the Muslim world. The pragmatists, on the other hand, having resigned

themselves by early 1987 that a military defeat of Iraq was unlikely, seized the opportunity in July 1988 to finally agree to a cease-fire with Iraq.

(2) Mending Fences In The Gulf. Iran has also been working hard to mend fences in the Middle East and especially on the Arab side of the Gulf.

Considerable progress has been made since the dark days of the Iran-Iraq War, when Iran was opposed in the war by most of the Gulf Cooperation Council (GCC) countries. Now Iran has diplomatic relations with Bahrain, Oman, Qatar, the United Arab Emirates and Saudi Arabia. Khatami is hoping to channel even more of Iran's resources away from risky and counterproductive "foreign adventures" of the past, directing them instead toward reform efforts at home.

### **C. OUTLOOK FOR THE FUTURE**

Today, as Iran struggles to allocate its limited economic resources, there is no support among reformers for external conflict—a belief shared by members of the US intelligence community. Officials have stated they believe Khatami to be a true reformer dedicated to ending his government's support of terrorism and other destabilizing foreign activities.<sup>115</sup> However, Khatami is still far from being able to consolidate his control over all structures within Iran. The manner in which the US responds to Iran's signals and reforms will be a key factor in whether or not Khatami's pragmatists can continue to deflect conservative opposition and deliver economic reforms to their country.

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<sup>115</sup> Jeffrey Smith, "Khatami Wants to End Terrorism, Officials Say," *Washington Post*, 5 May 1998, p. A-9 (LEXIS-NEXIS).





## V. CONCLUSION—IMPLICATIONS OF US POLICY

During 1998 the hard-line authorities have continued their indirect challenges to Khatami. One of their strategies has been to censor and even close down a number of pro-Khatami publications. In addition to threatening press freedoms, the conservative and hard-line opposition has also continued to target the president's political allies. Conservatives in the *Majlis* initiated impeachment proceedings against Interior Minister Abdollah Nouri and the pro-Khatami Mayor of Tehran, Gholam-Hossein Karbaschi, was convicted of corruption and sentenced to jail.<sup>116</sup> Meanwhile, under siege, Iran's president continued to portray himself as the president of all Iranians, rather than a representative of a particular reformist faction. But Khatami's greatest hope must be that he can hold on to the critical popular support that made him president and which will be necessary if the pragmatics' reforms have any chance at all. However, to maintain grassroots support the president must produce evidence that economic improvements for middle and lower class Iranians are on the way. Such a feat may be almost impossible if sanctions remain in place and the US continues to discourage international economic assistance.

The Clinton administration's May 1998 decision to waive sanctions against three foreign companies doing business in Iran ended months of speculation and was greeted by the EU and Iran as a great moral victory.<sup>117</sup> However, in spite of what many had hoped would be a step toward the eventual cancellations of all sanctions, US sanctions

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<sup>116</sup> "How U.S. Policy Helps Iran's Hard-liners Undermine Khatami," *Mideast Mirror*, 17 June 1998, Section: Iran, Vol. 12, No. 114 (LEXIS-NEXIS).

<sup>117</sup> Since late 1997, Washington had been reviewing whether or not the Iran Libya Sanctions Act (ILSA) had been violated by Iran's oil deal in September 1997 with France's Total, Russia's Gazprom, and Malaysia's Pertonas.

remain in effect. Since the US waiver concerns investments which will not produce tangible benefits for several years, there will be no immediate change in Iran's economic situation.

By continuing to use sanctions to squeeze Iran's economy, in an attempt to force the country to further alter its foreign and defense policies, the US is contributing to the economic pressures on Khatami's government. US sanctions and falling oil prices are reducing Iran's earning from oil sales to \$10 billion this year. This is down from last year's estimate of \$16 billion.<sup>118</sup> Many domestic development projects and economic reforms will fall victim to Iran's economic austerity and will be shelved or cancelled entirely. These survival measures will undoubtedly damage the popularity of the president and his reformers, not to mention the impact they will have on discouraging conservative fence-sitters from joining the reformers' camp. Moreover, these developments benefit the president's conservatives and hard-line opponents who hope a failure to deliver tangible economic improvements will discredit reform programs and thereby protect their economic and political interests.<sup>119</sup>

The position of the US regarding the effectiveness of sanctions is all the more remarkable when one observes the effect they have had on Iraq—arguably the most heavily sanctioned country in the world. Sanctions have certainly not proved to have any appreciable affect on moderating the behavior of Saddam Hussein. In fact, as UN weapons inspections continue to attest, sanctions and reduced revenue do not necessarily

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<sup>118</sup> *Mideast Mirror*, 17 June 1998.

<sup>119</sup> *Ibid.*

reduce the capacity of a nation to develop its military arsenal—including medium-range missiles and perhaps even nuclear weapons. The sense of being threatened can encourage regimes to slash their economic and social programs and become more determined than ever to secure what they consider the means necessary to defend themselves from their enemies.

Therefore, the most dangerous thing about present US policy toward the Islamic Republic is that it could very well create the conditions which could bring down the current government, just as the country is acquiring weapons of mass destruction. If Iran is developing these weapons, they would fall into the hands of the hard-liners, leaving the US facing a far bigger danger than the one it is trying to avert.

Ironically, it was US policies toward Iran during the period immediately before and after the overthrow of the Shah that brought about the defeat of those who were inclined to be friendlier toward them and the success of those more hostile. Khatami and Iran's pragmatics are repeating history, opening the door to the US wider than anyone else since 1979. However, if the US again fails to step across the threshold conservatives and hard-liners may deadbolt the door, putting an end the opportunity for rapprochement and the promise of a moderate future for Iran.



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